

Department of Children's Services

November 2004

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John G. Morgan
Comptroller

November 12, 2004

The Honorable Phil Bredesen, Governor
and

Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and

The Honorable Viola P. Miller, Commissioner
Department of Children's Services
Cordell Hull Building, Seventh Floor
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Department of Children's Services for the period July 1, 2002, through February 29, 2004.

The review of internal control and compliance with laws, regulations, and provisions of contracts or grant agreements resulted in certain findings which are detailed in the Objectives, Methodologies, and Conclusions section of this report.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/th
04/046



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March 19, 2004

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have conducted a financial and compliance audit of selected programs and activities of the Department of Children's Services for the period July 1, 2002, through February 29, 2004.

We conducted our audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. These standards require that we obtain an understanding of internal controls significant to the audit objectives and that we design the audit to provide reasonable assurance of the department's compliance with laws, regulations, and provisions of contracts or grant agreements significant to the audit objectives. Management of the Department of Children's Services is responsible for establishing and maintaining effective internal control and for complying with applicable laws, regulations, and provisions of contracts and grant agreements.

Our audit disclosed certain findings which are detailed in the Objectives, Methodologies, and Conclusions section of this report. The department's administration has responded to the audit findings; we have included the responses following each finding. We will follow up the audit to examine the application of the procedures instituted because of the audit findings.

We have reported other less significant matters involving the department's internal control and instances of noncompliance to the Department of Children's Services' management in a separate letter.

Sincerely,

Arthur A. Hayes, Jr., CPA,
Director

AAH/th

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit Department of Children's Services

AUDIT SCOPE

We have audited the Department of Children's Services for the period July 1, 2002, through February 29, 2004. Our audit scope included a review of internal control and compliance with laws, regulations, and provisions of contracts or grant agreements in the areas of the Social Security trust funds, Chafee Foster Care Independent Living, the state payment card, the Financial Integrity Act, and Department of Finance and Administration Policy 20—"Recording of Federal Grant Expenditures and Revenues." The audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

AUDIT FINDINGS

The Department Did Not Perform Reconciliations Related to Trust Fund Accounts of Children Receiving Federal Benefits and Did Not Return Funds to the Social Security Administration Timely *

As noted in the prior five audits, the department did not perform reconciliations related to Social Security trust funds and did not return funds to the Social Security Administration timely (page 4).

The Department Has Inadequate Controls to Prevent Payments From Exceeding the Established Limits in the Chafee Foster Care Independent Living Program

The department does not have an edit check within the standard claim invoice processing system that would prevent claims from exceeding the established expenditure limits

for individual recipients. The department relies on the Community Services Agencies to track all lifetime limits for each youth and does not have adequate controls in place to reject standard claim invoices that exceed the limits in the Chafee Foster Care Independent Living program (page 8).

The Department Did Not Maintain Adequate Case File Documentation for Youth in the Chafee Foster Care Independent Living Program

Chafee Independent Living case files did not contain adequate documentation related to applications and service contract agreements. Chafee funds were paid to one youth who was ineligible to receive funding (page 13).

**The Department Did Not Submit an
Internal Accounting and Administrative
Control Report in Compliance With
Section 9-18-104, *Tennessee Code
Annotated***

The department did not submit a report by
December 31, 2003 (page 18).

*This finding is repeated from prior audits.

Financial and Compliance Audit Department of Children's Services

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Financial and Compliance Audit Department of Children's Services

INTRODUCTION

POST-AUDIT AUTHORITY

This is the report on the financial and compliance audit of the Department of Children's Services. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which requires the Department of Audit to "perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller."

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

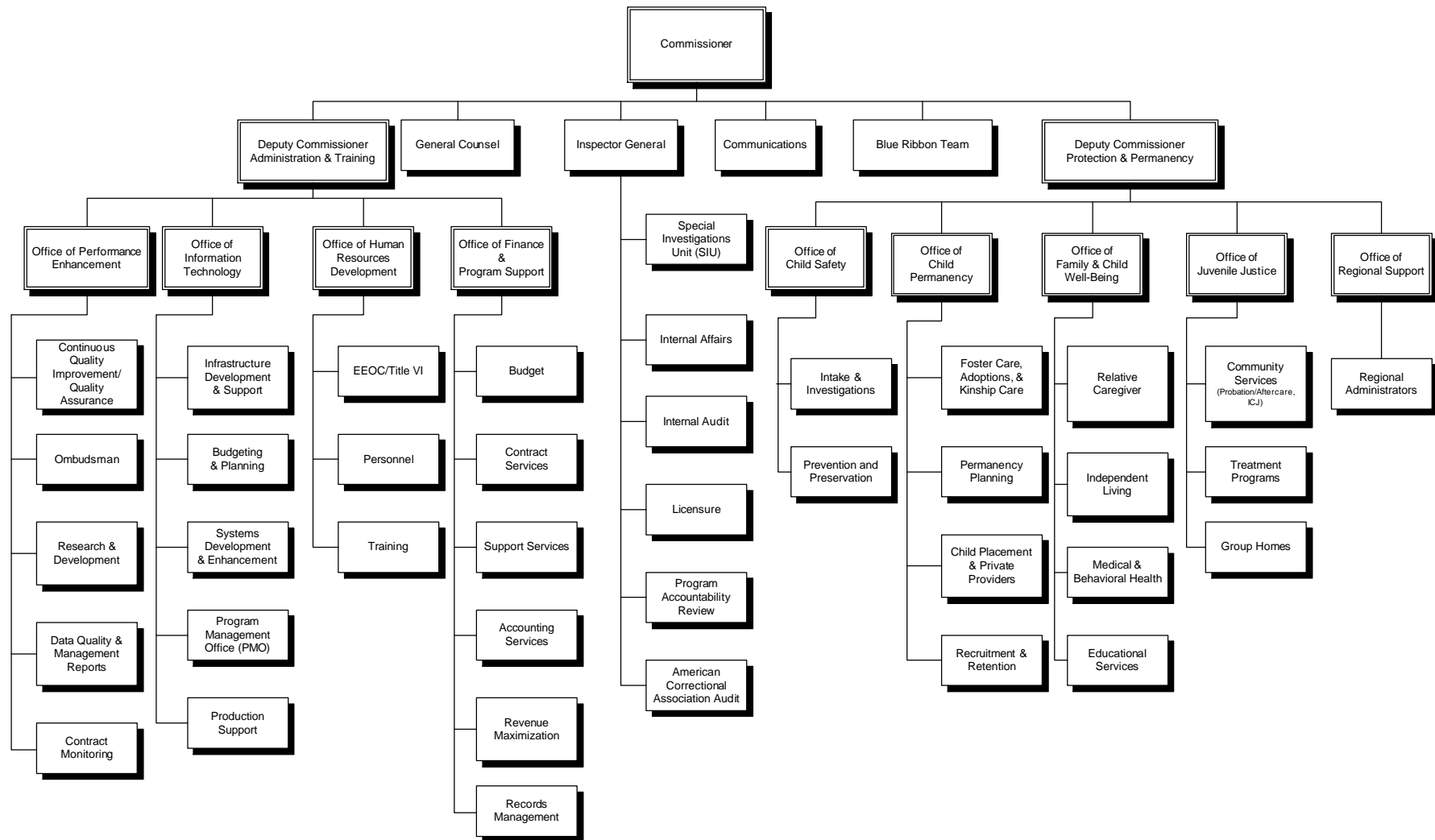
BACKGROUND

The Department of Children's Services was created by the 1996 Public Acts Chapter 1079 on May 21, 1996. The former Department of Youth Development and the Department of Finance and Administration's Office of Children's Services Administration were combined along with certain functions from the Departments of Human Services and Health concerning the welfare of children.

In collaboration with juvenile courts, local communities, schools, families, and other state agencies, it is the mission of the Department of Children's Services to provide timely, appropriate, and cost-effective services to children in state custody and at risk of custody so these children can strive to reach their full potential as productive, competent, and healthy adults. The focus of the services is to preserve the relationship between the child and the family by providing, whenever possible, services in the child's community and by providing the services in a setting which is the least restrictive and yet the most beneficial. The department works to combat delinquency and other social ills concerning young people and to continuously improve the management and coordination of services for children and families.

An organization chart of the department is on the following page.

Department of Children's Services Organization Chart



AUDIT SCOPE

We have audited the Department of Children's Services for the period July 1, 2002, through February 29, 2004. Our audit scope included a review of internal control and compliance with laws, regulations, and provisions of contracts or grant agreements in the areas of the Chafee Independent Living program, state payment cards, Social Security trust funds, the Financial Integrity Act, and Department of Finance and Administration Policy 20—"Recording of Federal Grant Expenditures and Revenues." The audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

PRIOR AUDIT FINDINGS

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The Department of Children's Services filed its report with the Department of Audit on September 16, 2003. Audit report number 02/103 for the Department of Children's Services, issued in April 2003, contained eleven audit findings. Seven of these findings were also included in the State of Tennessee *Single Audit Report* for the year ended June 30, 2002. The updated status of these seven findings was determined and reported in the *Audit Results from CAFR and Single Audit Procedures for the Department of Children's Services* for the year ended June 30, 2003. The updated status of the other four findings as determined by our audit procedures is described below.

RESOLVED AUDIT FINDINGS

The current audit disclosed that the Department of Children's Services has corrected previous audit findings concerning

- improper and ineffective employer-employee relationships,
- prompt processing of journal vouchers, and
- appropriate grants not being charged when initial transactions are recorded.

REPEATED AUDIT FINDING

The prior audit report also contained a finding concerning incomplete reconciliation of the Social Security Administration trust fund accounts to the accounting records. This finding has not been resolved and is repeated in the applicable section of this report.

OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

SOCIAL SECURITY TRUST FUNDS

Our primary objectives for Social Security trust fund accounts were to follow up on a prior audit finding concerning the lack of reconciliations relating to trust fund accounts and not returning funds to the Social Security Administration timely.

To accomplish our objectives, we interviewed key department personnel about the department's procedures and controls over the Social Security trust fund transactions for children in state custody to determine whether improvements had been made during the audit period. We reviewed documentation and made inquiries of management to determine if the department had prepared reconciliations between the total of the individual Social Security trust fund accounts and the total balance on the State of Tennessee Accounting and Reporting System (STARS), if monthly trust fund accountings were being performed timely, and if refunds to the Social Security Administration were made in a timely manner.

As a result of our inquiries and reviews, we determined that the department has not performed reconciliations between the total of the individual Social Security trust fund accounts and the total balance on STARS. In addition, the department did not always perform timely accountings; therefore, the department did not always make refunds to the Social Security Administration in a timely manner. See finding 1.

1. **The department did not perform reconciliations related to trust fund accounts of children receiving federal benefits, did not return funds to the Social Security Administration timely, and did not perform timely accountings**

Finding

As noted in the prior five audits, covering the period July 1, 1997, through June 30, 2002, the Department of Children's Services (DCS) did not perform reconciliations related to trust fund accounts of children receiving federal benefits, did not return funds to the Social Security Administration timely, and did not perform timely accountings. The trust fund accounts consist mainly of money received from the U.S. Social Security Administration for Social Security payments and Supplemental Security Income benefits, as well as payments received from parents and from the U.S. Veterans' Administration, Miners, and Railroad benefits. The money in each individual's trust fund account may be used to reimburse the state for current and future expenditures made by the state on behalf of the child. In addition, when a child leaves state custody, it is the state's responsibility to return the child's balance to the Social Security Administration within 60 days. As noted in the previous audit, management has resolved several of the issues related to trust funds noted in prior audits. However, the department still has not

adequately addressed issues regarding reconciliations and accountings and has not complied completely with the timely return of funds. Management concurred with the prior audit finding and stated:

All accounting procedures and processes performed by the Trust Accounting Unit are being reviewed to determine if adjustments to procedures or additional controls can be implemented to prevent or to more timely detect errors in the recording of transactions. The continuing development of the TNKIDS system and the future implementation of the Oracle Financial System will also aid this process by replacing the current antiquated systems with a single system that records the placement and funding eligibility for a given child. As these technological advances occur, management will monitor to ensure that the proper components for trust accounting, including reconciliations, are addressed.

Based on discussions with management and our review, it appears that, while still not timely, the department has improved the timeliness in performing its monthly accountings. An accounting shows the benefits received, expenses made for a child's care, and the cumulative monthly balance. Based on walkthroughs and inquiries of management, as of March 19, 2004, the department has completed at least half of all the monthly accountings for January and February 2004; however, for the remainder of these accounts the department is still one month behind in posting of those accountings. The results of the prior audit noted accountings were as much as four and five months behind.

The department has made no significant improvements in performing the necessary reconciliations of the Social Security trust funds. There appears to have been little, if any, progress in developing the automated system, and no significant controls have been added to detect errors in additions and withdrawals from the trust fund accounts.

Reconciliations were not performed between the total of the individual trust fund accounts and the fund's total balance on STARS, which was \$15,949,544 at June 30, 2003. Similarly, no reconciliation was performed to balance totals from automated clearinghouse (ACH) journal vouchers to the amounts entered into the individual trust fund accounts. In addition, the total amounts deducted from children's trust fund accounts for expenditures made by the state on behalf of the child were not reconciled with amounts deducted from the fund's total balance. Therefore, there was no assurance that all the revenue received, in total, had been properly credited to the children's trust fund accounts and that all amounts transferred to the State of Tennessee, in total, were properly deducted from the children's trust fund accounts.

Recommendation

Note: The language in this recommendation is practically identical to that in the last audit, reflecting that the agency has made little improvement.

The Executive Director of Program Support should ensure that reconciliations are performed to balance monthly account activity to the amounts keyed into the individual trust fund accounts. In addition, monthly reconciliations should be performed to balance the total individual trust accounts to STARS. When children leave state custody, the department should refund any benefits due to the Social Security Administration within 60 days, and all monthly accountings should be performed in a timely manner.

The Commissioner should complete the acquisition of the planned computer system or commit personnel resources to complete the reconciliations manually.

Management's Comment

We concur. As noted in the audit finding, the department has made significant improvement in the manual accounting for the trust funds for the children in the department's custody. The trust function in the Department of Children's Services is a highly complex interdependency between various funding sources, including entitlements that impact a child's accounting for a given period of time. DCS is providing manual accountings for approximately 3,500 children for any given month. Because of the number and complexity of each accounting, full implementation of the audit recommendations will require the total automation of the accounting systems for the department.

The first step of the automation of the trust accounting function requires that all payments made for a child be processed in a single accounting system or implementation of a seamless interface between accounting subsystems maintained by the department. The department subsequent to the audit period has implemented the first phase of the financial segment of TNKIDS. This first phase deals with child specific payments for residential treatment facilities. This system will provide the foundation for automation of the trust accounting when all phases related to child specific payments are complete in TNKIDS.

The second step is the automation of child specific funding of each transaction paid for each child. Because of the interdependencies between eligibility for entitlements and trust funds, this is a complex project for the department. As often as not, changes in the eligibility status of a child must also trigger re-evaluation of previously funded transactions and facilitate adjustments in each child's account. The basis for such an intricate funding system must of necessity include the eligibility status for entitlements. The Departments of Children's Services and Human Services are currently developing business rules for a comprehensive eligibility system. This system through interfaces with other systems will link eligibility coverage for Title IV-E, TennCare, Families First, Day Care and Child Support. This project is in the early stages but will support the automation of the trust accounting area.

Pending completion and implementation of the financial and eligibility segments of TNKIDS, the department will continue to identify and make improvements in the manual trust accountings process and implement the audit recommendations. Modifications to the existing subsystems will require development of business rules and prioritization for resources by the Core Leadership Team.

The sequential implementation of the components involved in building a comprehensive DCS accounting system as described above must be in place before the trust fund accounting system will have the inter relational capabilities essential to develop a system that will produce accurate real-time trust fund information. Implementation and development of this system is the responsibility of the Executive Director of Finance and Program Support.

CHAFEE FOSTER CARE INDEPENDENT LIVING

The Foster Care Independence Act of 1999 offers assistance to young adults transitioning out of foster care and into independent living. A significant portion of the Foster Care Independence Act deals with the creation of the John H. Chafee Foster Care Independence Program. The purpose of the Chafee Independence Program was the provision of more flexible funding to enable states to design and implement a variety of programs to assist children in the process of making the transition from foster care to independent living. The Department of Children's Services (DCS) has designed its program for youth in foster care who are between the ages of 14 and 16 and who have the goal of a permanent living arrangement, and all youth age 16 and older are eligible for all needed services. The program also allows provisions for youth who were adopted at age 15 or afterwards and gives them access to developmentally appropriate services from the transitional living program.

For youth exiting state custody, DCS has determined that the department may provide post-custody services to include room and board, case management services, financial support for post-secondary education or job training, and other services deemed necessary to youth requesting voluntary services from the department. Some of the types of services available under the program are limited monetary assistance for tuition, campus room and board, books, and supplies to both youth in custody and those receiving voluntary services post-custody as they pursue post-secondary education.

Our primary objectives were to determine whether

- management had developed written policies and procedures;
- payments were made only for youth who were in DCS custody after their 13th birthday;
- expenditure amounts did not exceed the established limits for financial assistance, and expenditures were only charged under the approved codes;

- approvals were obtained from appropriate personnel prior to the purchase of services;
- application forms, release of information for post-secondary assistance forms, and service contracts were completed by youth in the program; and
- service plans were reviewed with the youth every six months, and case manager contact was made with the youth at least every two months.

To accomplish our objectives, we interviewed key department personnel to document and evaluate internal controls over the requirements of the program. We reviewed written policies and procedures. We performed analytical procedures to determine if expenditures for the grant exceeded the established limits for assistance and to determine if expenditures were only charged under approved codes and prior approvals were obtained when required. In addition, we tested a nonstatistical sample of case files for youth participating in the post-secondary program to ensure application forms, release of information for post-secondary assistance forms, and service contracts were completed by youth in the program and to determine whether service plans were reviewed with the youth every six months. We also reviewed case notes in TNKIDS to determine whether there was case manager contact with the youth at least every two months to verify continuing school attendance and to determine whether the youth had been in DCS custody after their 13th birthday.

As a result of our interviews and testwork performed, we determined that management had developed written policies and procedures; however, the department does not have adequate controls in place to prevent expenditures from exceeding the established limits or to prevent expenditures from being coded improperly, nor were prior approvals always obtained when required, as noted in finding 2. Also, the department did not always maintain a case file for youth participating in the post-secondary program. Additionally, application forms, release of information for post-secondary assistance forms, and service contracts were not always maintained in the case files. We determined that payments were not always limited to youth who had been in state custody after their 13th birthday. Furthermore, case notes in TNKIDS did not always contain documentation that service plans were reviewed every six months and that there was case manager contact with the youth at least every two months to verify continuing school attendance. See finding 3.

2. The department has inadequate controls to prevent payments from exceeding the established limits in the Chafee Foster Care Independent Living program

Finding

The Department of Children's Services (DCS) does not have adequate controls to prevent students receiving financial assistance from exceeding the established limits for payments in the Chafee Foster Care Independent Living program. The Chafee Foster Care Independent Living program was designed to offer assistance to young adults transitioning out of foster care and into independent living. The federal Chafee grant has established programs that states may

implement. The grant includes programs to identify children likely to remain in foster care until 18 years of age and to provide them with services aimed at helping them obtain a high school diploma, vocational training, career exploration, job placement and retention skills, daily living skills, financial management skills, and preventive health training.

Additionally, the program is to assist children likely to remain in foster care until 18 years of age to prepare for and enter post-secondary educational and training institutions and programs to provide personal and emotional support, through mentors and the promotion of interactions with dedicated adults. The Chafee grant also has programs to provide financial, housing, counseling, employment, education, and other appropriate support and services to children between 18 and 21 years of age who have formerly received foster care.

DCS has determined the types of services allowable under the program in DCS Policy 16.53, which states,

In order to assist young people to meet their post secondary educational goals, DCS will provide limited monetary assistance for tuition, campus room and board, books and supplies to both youth in custody and those receiving voluntary/services post custody as they pursue post secondary education. These financial aid supports will complement state, federal, and privately endowed scholarship programs.

Student Financial Assistance Expenditures

The Chafee program provides funding of up to \$5,000 per year for youth to attend a four-year college or university, up to \$850 per year for community college, and up to \$700 per year for a Tennessee Technology Center. Through the use of analytical procedures, we determined that DCS had exceeded its established limits in providing financial assistance to students participating in the Chafee Foster Care Independent Living program. Questioned costs for these students totaled \$14,832.

- One student received financial assistance in the amount of \$18,503 from November 2002 to March 2003. The student was eligible to receive up to \$5,000 per year; however, this student received an additional \$13,503. The claims for payments were approved by the former Director of Foster Care; however, there was no evidence as to why the former director approved them.
- Two students received \$5,448 and \$5,881, respectively, in financial assistance. This was \$448 and \$881 above the \$5,000-per-year limit to attend four-year institutions.

Other Independent Living Expenditures

DCS also provides for developmentally appropriate services to prepare youth for independent living. The DCS case manager identifies needs for youth and uses the region's approved Community Services Agency's (CSA's) request, approval, and authorization form to request provision and payment of independent-living services, goods, or incentives. The Independent Living Coordinator is responsible for approving any purchase of a service identified as a unique need. According to Policy 16.54, "Purchasing Independent Living Services," DCS has established the following lifetime expenditure limits:

Description	Lifetime expenditure limit
Car Insurance	\$600
Car repairs	\$750
High School or GED diploma	\$100
Phone, utilities, rental	\$500
Positive Start	\$650
Start Up	\$250

Positive Start is entitlement given to youth 18 years old or older who are leaving foster care voluntary services. Start Up is given to youth receiving voluntary services who are accepted into the program and are starting college or a training program. Under certain circumstances, Regional Administrators may grant a waiver to exceed the above lifetime limits.

As a result of the analytical review of expenditures for the Chafee Foster Care Independent Living program, it was determined that of 53 expenditures tested, 16 expenditures (30%) exceeded the established limits for assistance through the Chafee Foster Care Independent Living grant. These payments to youth exceeded the established lifetime limits, and there was no documentation of an approved waiver. In addition, one of 53 expenditures tested (2%) did not contain backup documentation that the Independent Living Coordinator had approved the purchase.

- Nine youth had claims submitted by the CSA on two different service dates for the same type of expenditure. The second standard claim invoice caused the youth to exceed the established lifetime limit in that procedure code; however, the standard claim invoice processing system did not detect this and allowed the claims to be paid. There was no documentation indicating that a waiver had been approved. Eight of these transactions, totaling \$3,300, were duplicate payments for Positive Start Grants, Start Up Grants, and Graduation. These duplicate payments are questioned costs. The other transaction, for \$120, was for transportation. This cost, although allowable under the program, was erroneously submitted by the CSA under the Positive Start Grant procedure code, making it appear that Positive Start had exceeded the lifetime limit by \$120.

- Two transactions totaling \$1,120 were keyed incorrectly as car repairs by Tennessee Rehabilitative Initiative in Correction (TRICOR) and charged to the Chafee Foster Care Independent Living grant by DCS. TRICOR is on contract with DCS to perform data entry. These expenditure transactions were not applicable to the program, and should have been assigned to another grant. These costs are questioned. Additionally, as recorded, the second transaction put the youth over the approved limit of \$750 lifetime expenditures for car repairs. The standard claim invoice processing system did not detect this and allowed the claim to be paid. There was no documentation indicating that a waiver had been approved.
- Three other transactions were keyed incorrectly by DCS's contracted agency, TRICOR. The procedure codes were keyed incorrectly into the standard claim invoice processing system, making it appear that the lifetime limits for the procedure codes were exceeded. One transaction, for good grades, was miscoded to Positive Start, which made it appear that the limit in Positive Start was exceeded by \$60. The remaining two transactions, for car repairs and other special needs, were submitted on one standard claim invoice; their incorrect data entry made it appear that the youth had exceeded the limit for car insurance by \$700. Although these specific expenditures appear allowable and within the prescribed limitations of the program, the standard claim invoice system did not detect that the amounts as recorded exceeded the lifetime limits and allowed the claims to be processed. There was no documentation indicating that a waiver had been approved.
- Two expenditure transactions were initially coded for Transitional Living funds and apartment deposits as part of the Chafee Foster Care Independent Living program by the CSA; however, during processing, the standard claim invoice was assigned other procedure codes by DCS. It appears that there was confusion between the CSA and DCS on the coding of child-specific expenditures for this part of the program. According to management, approval is obtained from the CSA through the CSA liaison prior to any change in procedure codes. There was no documentation for these changes. The changes to deposits and Positive Start made it appear that the youths had exceeded the established lifetime limits in the respective procedure codes. Although the costs appear allowable and within limits if they had been coded correctly, the standard claim invoice system did not detect that the recorded amounts exceeded the limits and allowed the claims to be processed. There was no documentation indicating that a waiver had been approved.
- One expenditure transaction did not contain documentation that an approval was obtained from the Independent Living Coordinator prior to the fiscal office at DCS paying the CSA. This expenditure of \$1,092 was for a computer. Although the expenditure appears allowable, its payment without evidence of prior approval is against DCS policy and is the result of a weakness in controls.

Other Control Deficiencies

DCS does not have an edit check within the standard claim invoice processing system that would prevent claims from being processed multiple times. In addition, the standard claim invoice

processing system does not track purchases by youth; therefore, expenditure limits established in policy for each youth can be exceeded. DCS relies on the CSAs to track all lifetime limits for each youth and does not have adequate independent controls in place to reject standard claim invoices that exceed the limits in the Chafee Foster Care Independent Living program. Finally, DCS does not ensure that the CSAs obtain prior approval from the Independent Living Coordinator, for purchases requiring that approval.

Recommendation

The Executive Director of Program Support should ensure that controls are put in place to enforce the expenditure limitations set by policy and to prevent duplicate payments for the same services made to youth participating in the Chafee Foster Care Independent Living program. Furthermore, the Executive Director of Family and Child Well-Being should ensure that the Independent Living Coordinator approves all unique purchases under the Chafee program as well as student financial assistance for post-secondary education. In addition, management should apply analytical procedures and computer assisted audit techniques to monitor for departures from policy, and management should take appropriate action when violations are discovered.

Management's Comment

We concur that there were inadequate controls to prevent payments from exceeding the established limits of the Chafee Foster Care Independent Living Program. The following corrective actions were instituted June 25, 2004. All applications for this program must include an Independent Living Plan and students' eligibility will be determined prior to any notifications. Educational institutions are now required to respond within thirty (30) days of any award to confirm registration and attendance to all classes or programs. In addition, any request for financial assistance must be submitted with an invoice from each service provider detailing the service type, date of service, student name and social security number, and a copy of the award letter. Requests will not be approved for payment until all required documentation is submitted. These documents will be matched with internal systems to ensure that all payments are appropriate and within the established limits. In the audit report, exceptions were noted regarding expenditures exceeding the \$5,000 limit for post secondary education assistance. The department has established Delegated Purchase Authority (DPA) guidelines in addition to program and departmental policy. The DPA expenditure limits are not consistent with DCS policy or program guidelines. DPA expenditure limits exceed departmental and federal expenditure amounts. The department has revised DCS policy to coincide with federal program guidelines and any applicable DPA expenditure limits. To address Independent Living expenditures for the Positive Start and Start Up programs the department now requires that all requests exceeding the established limits (Code 406) be approved by the Director of Independent Living. The Director of Independent Living must receive support documentation for the following criteria: explanation and documentation of the need, assurance that all other resources have been exhausted, and the case manager and youth must submit and sign a plan to prevent reoccurrence of the need. All expenditures under Code 406 exceed the established limits and

require the Director's approval. The Community Services Agencies (CSA's) are required to submit the same documentation for expenditures. Beginning July 2004, all claims from the CSA are reviewed for proper procedure codes and duplicate payment. The department has begun using an automated system to track expenditures by youth and more effectively monitor expenditure limits. The CSA's use the same automated system, Kids Trax. The corrective actions listed above were developed and initiated by the Director of Independent Living. To address deficiencies in systems controls, the Executive Director of Finance and Program Support is evaluating all current system controls to enforce policies and regulations for the Chafee and the Education Training Voucher Programs. Business rules will be developed to enforce all appropriate controls. System modifications will also be requested to provide timely access to expenditure history by child to field staff responsible for the obligation of the department to preclude obligations in excess of established limits. Corrective actions listed above are being prioritized for assignment of information technology resources.

3. **The department did not maintain adequate case file documentation for youth in the Chafee Foster Care Independent Living program and one youth was found to be ineligible for services**

Finding

The department did not maintain adequate case file documentation for youth participating in the post-secondary part of the federal Chafee Foster Care Independent Living program. The Foster Care Independence Act of 1999 offers assistance to young adults transitioning out of foster care and into independent living. DCS has defined eligibility of this program by stating in DCS Policy 16.53, "Post Secondary Educational Support – Bright Futures Program," that "Youths considered to be in foster care who are between the ages of 14 and 16 and who have the goal of a permanent living arrangement, and all youth age 16 and older are eligible for all needed services. Youths who were adopted at age 15 or afterwards are eligible for developmentally appropriate services from the transitional living program." Additionally, DCS has determined the types of services allowable under the program in DCS Policy 16.53, which states,

In order to assist young people to meet their post secondary educational goals, DCS will provide limited monetary assistance for tuition, campus room and board, books and supplies to both youth in custody and those receiving voluntary/services post custody as they pursue post secondary education. These financial aid supports will complement state, federal, and privately endowed scholarship programs.

The department's policy provides funding of up to \$5,000 per year for youth to attend a four-year college or university, up to \$850 per year for community college, and up to \$700 per year for a Tennessee Technology Center. The department's policy indicates that to participate in the post-secondary program, the youth must complete an Application for Post Secondary Funding and sign the Release of Information for Post Secondary Assistance.

To receive funding under the program, youth must meet certain requirements in the policy, which states,

The youth and the Department must mutually agree to a service contract that details the tasks that must be accomplished and life skills that must be obtained in order to receive Bright Future payments. The agreement shall include:

- The agreed upon tasks by the youth and the Department;
- The terms of payment that the Department will make; and
- The time limits to achieve specific goals for the contract to continue and eventually be completed.

The service plan will be reviewed minimally with the youth every six months and updated, if needed. The youth shall participate in the six-month reviews. The Regional Independent Living Specialist must be included in the plan development and review process.

To further monitor the youth's progress, the policy states,

The Case Manager shall ensure:

- a) Contact is made with the student in person at least every two (2) months to verify continuing school attendance and to provide whatever supportive assistance may be necessary
- b) On the months, when there is not a face-to-face visit, there must be a phone contact with the youth. . . .

We selected a nonstatistical sample of 25 post-custody expenditures. Of the 25 expenditures, there were 21 youth receiving post-secondary educational assistance through the Chafee Foster Care Independent Living program. We tested case files for these 21 youth to determine compliance with state policies and procedures with regard to application and eligibility. The following case files were found to be noncompliant.

- None of the 21 files contained service contract agreements between the youth receiving post-secondary education assistance and DCS, as required by written policy. In fact, the department has not developed and implemented a service contract/agreement; therefore, notwithstanding the policy, there are no agreements for students to sign as a part of the application process. According to management, the department does require youth to complete a Rights and Responsibilities form; however, the form only lists the services that DCS may provide to the youth.
- For five of the students, documentation in TNKIDS was not adequate. According to TNKIDS, the case manager had not made monthly contact with the student to verify

the student's continuing school attendance or to provide whatever supportive assistance may be necessary.

- Five files were missing the release of information form which gives consent to DCS to obtain financial aid information regarding the student and class schedules, attendance, and grades. Without access to this information the department cannot know if students have received financial assistance from other sources, or failed to meet other requirements, that would have disqualified them for Chafee assistance.
- One youth was not eligible to receive post-secondary educational assistance. Based on documentation in the case file, this youth was adopted at age 13 and therefore was not eligible to receive assistance. The results of our sample and additional testwork disclosed assistance of \$850 from the Chafee Foster Care Independent Living Program was paid to a community college on behalf of this ineligible student. These costs are questioned.
- For one foster child, a post-secondary educational assistance case file was not maintained in the central office. Post-secondary educational assistance of \$3,000 was provided for this student. In addition, there was no application form provided for this youth.

Recommendation

The Executive Director of Family and Child Well-Being should ensure that compliance with the policies and procedures concerning the eligibility to receive post-secondary educational assistance is monitored and the policies and procedures are being followed. Proper documentation; including case files, applications, contracts, and release of information forms should be maintained as a basis for determining the amount of the grant award and to ensure that youth are eligible for the funds received. Contact should be maintained with participants to provide additional encouragement to them and to ensure that the objectives of the program are being achieved. Furthermore, management should develop the service contract as referenced in its policy and establish procedures to monitor completion of the agreement prior to awarding post secondary assistance.

Management's Comment

We concur. To address this issue of the service contract agreements the department is reviewing policy and is in the process of developing an appropriate service contract agreement. A service contract agreement will be developed and implemented by October 1, 2004. The Director of Independent Living was appointed in June 2004 and is actively taking steps to address control deficiencies. In addition, the department is working with the Regional Administrators to address issues regarding monthly contact and the proper documentation in TNKIDS and requirements for Independent Living assistance and eligibility. The department is

encouraged that the number of children with monthly case recordings has improved by 73%. The department distributes monthly reports of all children in state custody stating the last date of case recording activity to all regional administrators and central office staff. DCS staff uses this report to monitor the timeliness of case recordings and ensure that monthly contact is made with all required youth. The department continues to assess and implement best practices and controls over case management activity.

STATE PAYMENT CARD

Our primary objectives for the state payment card were to document internal controls and determine whether

- the cardholder was a Department of Children's Services (DCS) employee who was not terminated or currently on suspension and if the prior conditions exist, that the cardholder's privileges were terminated timely;
- the employee received proper training prior to card use and there was a payment card application and maintenance form on file with the proper signatures, and the cardholder agreement was signed by the employee;
- expenditure transactions did not exceed the daily maximum limit or purchasing guidelines and purchases were made from an appropriate vendor and purchases were not split to circumvent purchasing rules;
- multiple purchases were not made in the same day for the same child;
- there was adequate supporting documentation on the receipt and transaction logs and the transaction logs contained the required cardholder and approval signatures, and the items purchased appeared proper;
- the payment did not exceed the single purchase dollar limit and the child was in state custody during the time of the purchase;
- the payment card statement was reconciled to the cardholder's transaction log and the reconciliation with backup was submitted timely to the central office.

To accomplish our objectives, we performed interviews and documented the department's internal controls over the state payment card. We selected a nonstatistical sample of payment card transactions and tested these transactions to determine if there was adequate supporting documentation for the expenditure and the expenditure did not exceed the single purchase dollar limit. We reviewed the transaction logs attached to the supporting documentation to ensure the transaction log had been reconciled to the statement and that the backup and reconciliation were submitted timely to the central office. In addition, the transaction log was reviewed to determine if the log contained the required cardholder and approval signatures and if the items purchased appeared proper. We also reviewed the payment card statement for the expenditure transactions in our sample to determine if the statement had been reconciled to the transaction log. We determined whether the individuals purchasing the services

were DCS cardholders and whether the cardholders had received proper training prior to using the payment card.

For all cardholders who had made purchases in our expenditure sample, we examined the payment card files to determine if the cardholders had completed a payment card application and a maintenance form and whether these forms contained the proper signatures. The cardholder agreement was reviewed for each cardholder in our expenditure sample to determine if the agreement had been signed by the employee. We requested a list of all DCS employees who had terminated their employment or who were placed on suspension and compared this list with all active DCS cardholders to determine if cardholder privileges had been terminated. We also requested a listing of all cardholders whose cardholder privileges had been terminated and compared this to official documentation in the file to determine if cardholder privileges were terminated timely. To determine if purchases in our expenditure sample were made for children in DCS custody during the time of purchase, we looked at the court history screen in TNKIDS.

Additionally, we performed analytical procedures to determine if expenditure transactions exceeded the daily maximum limit, if purchasing guidelines and purchases were made from an appropriate vendor, and if purchases were split to circumvent purchasing rules; and if multiple purchases were made in the same day for the same child.

As a result of our interviews and testwork performed, it appears that cardholders were current DCS employees, had signed the cardholder agreement, and received proper training prior to card use. It appeared that employees who were terminated or suspended did not have active payment cards and their cardholder's privileges had been terminated timely. Furthermore, we determined that

- expenditure transactions did not exceed the single purchase dollar limit or the daily maximum limit;
- purchases were only made from appropriate vendors, and purchases were not split;
- multiple purchases were not made in the same day for the same child, and the items purchased appeared proper;
- there was adequate supporting documentation on the receipt and transaction logs, and the logs contained the required cardholder and approval signatures;
- the child was in state custody during the time of the purchase; and
- the payment card statement was reconciled to the cardholder's transaction log, and the reconciliation with backup was submitted timely to the central office.

Although our procedures disclosed minor weaknesses, it appears that, in all material respects, signed payment card applications and maintenance forms were on file and purchasing guidelines were followed.

FINANCIAL INTEGRITY ACT

Section 9-18-104, *Tennessee Code Annotated*, requires the head of each executive agency to submit a letter acknowledging responsibility for maintaining the internal control system of the agency to the Commissioner of Finance and Administration and the Comptroller of the Treasury by June 30 each year. In addition, the head of each executive agency is required to conduct an evaluation of the agency's internal accounting and administrative control and submit a report by December 31, 1999, and December 31 of every fourth year thereafter.

Our objectives were to determine whether the Department of Children's Services June 30, 2003, responsibility letter and December 31, 2003, internal accounting and administrative control report were filed in compliance with Section 9-18-104, *Tennessee Code Annotated*.

We reviewed the June 30, 2003, responsibility letter submitted to the Comptroller of the Treasury and to the Department of Finance and Administration to determine adherence to the submission deadline. We also made inquiries concerning the December 31, 2003, report.

We determined that the department submitted the responsibility letter for June 30, 2003 on July 1, 2003. We determined that the internal accounting and administrative control report for December 31, 2003, was not submitted to the Comptroller of the Treasury or to the Department of Finance and Administration, as disclosed in finding 4.

4. The department did not submit an internal accounting and administrative control report in compliance with Section 9-18-104, *Tennessee Code Annotated*

Finding

The department did not submit a report on December 31, 2003, to the Commissioner of Finance and Administration and the Comptroller of the Treasury in accordance with Section 9-18-104(b), *Tennessee Code Annotated* (TCA). Section 9-18-104(b) requires the head of each executive agency to conduct an evaluation of the agency's internal accounting and administrative control in accordance with the guidelines prescribed under *Tennessee Code Annotated*, Section 9-18-103, and submit a report by December 31, 1999, and December 31 of every fourth year thereafter, to the Commissioner of Finance and Administration and the Comptroller of the Treasury which states that:

- a. The agency's systems of internal accounting and administrative control fully comply with the requirements specified in this chapter, or
- b. The agency's systems of internal accounting and administrative control do not fully comply with such requirements.

According to management, the evaluation was performed and the report was prepared by the former Assistant Commissioner of Fiscal and Administrative Services. However, the department

did not submit the report, and the department has been unable to locate the report or other evidence of the evaluation.

The public's sensitivity toward fraudulent acts requires an emphasis on fraud detection and prevention. Furthermore, prevention is preferable to detection. The state Financial Integrity Act requires each agency of state government to establish and maintain internal controls and periodically assess and monitor the internal control process. In addition to requirements of the law, each agency has an ongoing, proactive responsibility for maintaining effective internal control to prevent fraud, including adequately documenting measures for detecting indications or suspicions of possible fraud existing in the agency.

Failure to perform periodic evaluations of internal control, assess the results, and take actions necessary to correct any weakness noted increases the risk that internal controls may not be adequate to prevent or detect fraud, waste, abuse, or noncompliance with laws and regulations governing the agency's operations.

Recommendation

The Commissioner should ensure that an evaluation of the Department of Children's Services' internal accounting and administrative controls is immediately performed. The results of the evaluation should then be promptly submitted to the Commissioner of Finance and Administration and to the Comptroller of the Treasury.

Management's Comment

We concur. The Executive Director of Program Support will require completion of an internal accounting and administrative control report in compliance with Section 9-18-104, *Tennessee Code Annotated*. Work on this project is in process and will be completed no later than December 31, 2004. The department will complete and submit all required reports in a timely manner.

DEPARTMENT OF FINANCE AND ADMINISTRATION POLICY 20, "RECORDING OF FEDERAL GRANT EXPENDITURES AND REVENUES"

Department of Finance and Administration Policy 20 requires that state departments whose financial records are maintained on the State of Tennessee Accounting and Reporting System (STARS) fully utilize the STARS grant module to record the receipt and expenditure of all federal funds. Our objectives were to determine whether

- appropriate grant information was entered into the STARS Grant Control Table upon notification of the grant award, and related revenue and expenditure transactions were coded with the proper grant codes;
- payroll expenditures were appropriately distributed;
- the department followed the appropriate drawdown procedures;
- the department negotiated an appropriate indirect cost recovery plan, and indirect costs were included in drawdowns;
- the department utilized the appropriate STARS reports as bases for preparing the Schedules of Expenditures of Federal Awards and reports submitted to the federal government; and
- the department complied with the Department of Finance and Administration's (F & A's) waiver to use interim billing rates to draw federal funding dollars from grants as expenditures are recorded on STARS.

To accomplish our objectives, we interviewed key personnel to gain an understanding of the department's procedures and controls concerning Policy 20. We reviewed supporting documentation and tested nonstatistical samples of grant awards, revenue and expenditure transactions, payroll distributions, drawdowns, and reports submitted to the federal government to determine if indirect costs were included in the drawdowns and drawdowns were made timely using the applicable STARS reports. Grant award notification dates were reviewed and compared to the awards listed on STARS to determine if grant awards were entered timely. A nonstatistical sample of revenue and expenditure transactions was tested to determine if the transactions were coded properly. We tested a nonstatistical sample of Title IV-E expenditures to determine if the department is complying with F&A's waiver to use interim billing rates to draw federal funding dollars from grants as expenditures recorded on STARS. We also reviewed the department's cost allocation plan, the Schedule of Expenditures of Federal Awards, and reports submitted to the federal government. Each grant's total expenditure amount on the schedule and on the federal reports was reconciled with STARS.

As a result of our interviews, reviews, and testwork, we determined that grant information was entered into the STARS Grant Control Table upon notification of the grant award, and related revenue and expenditure transactions were coded with the proper grant codes. The department had fully utilized the STARS Grants Module to record the receipt and expenditure of all federal funds, appropriate payroll costs were reallocated appropriately and timely, the department made drawdowns weekly using the applicable STARS reports, and the proper indirect costs were included in the drawdowns. The department also had negotiated an appropriate indirect cost recovery plan and used the appropriate STARS reports as bases for preparing the Schedule of Expenditures of Federal Awards and reports submitted to the federal government. The department is complying with the F&A waiver to use interim billing rates to draw federal funding dollars from grants as expenditures are recorded on STARS.

OBSERVATIONS AND COMMENTS

TITLE VI OF THE CIVIL RIGHTS ACT OF 1964

Section 4-21-901, *Tennessee Code Annotated*, requires each state governmental entity subject to the requirements of Title VI of the Civil Rights Act of 1964 to submit an annual Title VI compliance report and implementation plan to the Department of Audit by June 30 each year. The Department of Children's Services filed its compliance report and implementation plan on June 30, 2003.

Title VI of the Civil Rights Act of 1964 is a federal law. The act requires all state agencies receiving federal money to develop and implement plans to ensure that no person shall, on the grounds of race, color, or origin, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving federal funds. The Tennessee Title VI Compliance Commission is responsible for monitoring and enforcement of Title VI. A summary of the dates state agencies filed their annual Title VI compliance reports and implementation plans is presented in the special report *Submission of Title VI Implementation Plans*, issued annually by the Comptroller of the Treasury.

APPENDIX

DIVISIONS AND ALLOTMENT CODES

Department of Children's Services divisions and allotment codes:

- 359.10 Administration
- 359.20 Family Support Services
- 359.30 Custody Services
- 359.40 Adoption Services
- 359.50 Child and Family Management
- 359.60 Wilder Youth Development Center
- 359.61 Taft Youth Development Center
- 359.62 Woodland Hills Youth Development Center
- 359.63 Mountain View Youth Development Center
- 359.65 Community Treatment Facilities
- 359.70 Tennessee Preparatory School
- 359.80 Major Maintenance